

ENERGY & UTILITIES

Overview

Background. Several agencies play a role in developing, implementing, and managing the state's energy-related policies. These include:

- **California Energy Commission.** This is the state's primary policy and planning agency in the energy area.
- **California Public Utilities Commission.** The commission is involved with various energy-related regulatory activities.
- **Electricity Oversight Board.** The Board's responsibilities include monitoring the state's electricity market. It investigates the structure, function, and competitiveness of markets for bulk energy, transmission, and generating capacity. It also conducts oversight and performance evaluation of the California Independent System Operator.
- **California Power Authority.** This entity was created during the state's 2001 electricity crisis to finance new electricity generation and assure an adequate electricity supply for the state. This agency is currently defunct.
- **California Energy Resources Scheduling Division within the Department of Water Resources.** This is the entity that currently purchases electricity for the state on behalf of the state's three largest investor owned utilities (IOUs).
- **California Independent System Operator (ISO).** The ISO is a not-for-profit corporation that was created by the state when it deregulated its wholesale electricity industry in 1996. The ISO is not considered a state agency, but was created by the Legislature and is governed by a board of gubernatorial appointees. However, its activities are regulated by the federal government. The ISO is charged with managing the majority of the state's electricity transmission system, in order to ensure competitive access to the grid by all electricity sellers. It also seeks to ensure that the power grid is safe and reliable.

Highlights

Electricity Oversight Board. The Governor is proposing to eliminate the Electricity Oversight Board.

3360 California Energy Commission

Background. The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission or CEC) is responsible for forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

Governor's Budget. The Governor's Budget proposes \$399 million to support CEC in 2007-08. The proposed budget is approximately 18 percent less than estimated expenditures in the current year due to a reduction in renewable energy and PIER funding. The department does not receive any General Fund support.

Summary of Expenditures					
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change	
Type of Expenditure					
Regulatory and Planning	\$ 27,025	\$ 27,757	\$ 732	2.7	
Energy Resources Conservation	33,989	47,510	13,521	39.8	
Research and Development	451,043	343,556	-107,487	-23.8	
Administration	13,653	13,199	-454	-3.3	
<i>less distributed administration</i>	-13,653	-13,199	454	-3.3	
<i>less loan repayments</i>	-2,422	-1,522	900	-37.1	
Total	\$ 509,635	\$ 417,301	-\$92,334	-18.1	
Funding Source					
General Fund	\$0	\$0	\$0	0	
Special Funds	491,912	399,166	-92,746	-18.8	
<i>Budget Act Total</i>	<i>491,912</i>	<i>399,166</i>	<i>-92,746</i>	<i>-18.8</i>	
Federal Funds	11,978	12,390	412	3.4	
Reimbursements	5,745	5,745	0	0	
Total	\$ 509,635	\$ 417,301	-\$92,334	-18.1	

Highlights

Global Warming Solutions Act Implementation. The Governor's Budget proposes \$1.1 million in special funds for five permanent positions to work on emission reduction strategies in the energy sector. Among the primary strategies that these funds will be used for are reporting and verifying statewide greenhouse gas emissions, developing a program to monitor and enforce reporting requirements, and evaluating market-based mechanisms for greenhouse gas reduction.

Greenhouse Gas Emissions Performance Standards. The Governor's Budget proposes \$122,000 in special funds for one position to develop greenhouse gas emissions performance standards and implement regulations for all publicly owned electric utilities.

Photovoltaic and Energy Efficiency Funding for Schools. The Governor's Budget proposes \$1.1 million in special funds for four permanent positions to provide grants, loans, and technical support for the photovoltaic and energy efficiency program in public K-12 schools.

Million Solar Roofs. The Governor's Budget proposes \$486,000 in special funds for implementation of SB 1 (Murray). The legislation requires the Energy Commission to establish eligibility criteria for solar energy systems and to establish conditions for ratepayer funded incentives for all installations of solar energy systems on all types of buildings and facilities included in the Million Solar Roofs Initiative.

Public Purpose Natural Gas Research. The Governor's Budget proposes \$471,000 in special funds to support four new positions to identify, develop and manage transportation-related research projects that benefit natural gas ratepayers, as well as climate change and air quality research.

PIER Electricity Program Implementation. The Governor's Budget proposes \$418,000 in special funds to support three new positions for research in global climate change, solar energy, and electricity distribution.

Petroleum Industry Reporting and Reducing Petroleum Use. The Governor's Budget proposes \$953,000 in special funds for two permanent and two limited-term positions to conduct petroleum industry reporting and to develop fuel-efficiency standards for tires so that vehicles use less fuel.

Issues

Photovoltaic and Energy Efficiency Funding for Schools. The Governor's Budget proposes special funds from a lawsuit settlement for the creation of permanent positions for the photovoltaic and energy efficiency program in public K-12 schools. The Legislature may wish to consider making these positions temporary as the final settlement payment for the program will be made in 2010.

Million Solar Roofs. Renewable energy is an important component in reducing greenhouse gas emissions. The Legislature may wish to inquire as to how this program will interrelate to the Global Warming Solutions Act of 2006 implementation actions.

3860 Department of Water Resources (California Energy Resources Scheduling Division)

Background. The Department of Water Resources' California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

Governor's Budget. The Governor's Budget proposes \$5.6 billion to fund the CERS division of the Department of Water Resources (DWR). This is \$212 million, or 3.7 percent, below estimated expenditures in the current year, which reflects a slight reduction in the amount of electricity purchased under contract for the budget year. These funds are not subject to appropriation in the budget bill.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Electricity Purchases	\$ 4,859,909	\$ 4,643,218	-\$216,691	-4.5
Interest Expense - Revenue Bonds	460,841	441,269	-19,572	-4.2
Payment of Principal - Revenue Bonds	447,690	470,140	22,450	5
Administration	21,422	22,584	1,162	5.4
Total	\$ 5,789,862	\$ 5,577,211	-\$212,651	-3.7

8660 Public Utilities Commission

Background. The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain video providers and passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

Governor's Budget. The Governor's Budget proposes \$1.2 billion to support the CPUC in the budget year. This is approximately the same level of funding as is estimated for expenditure in the current year. The commission does not receive any General Fund support.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type Expenditure				
Regulation of Utilities	\$ 375,297	\$ 381,501	\$ 6,204	1.6
Universal Service Telephone Programs	897,408	884,615	-12,793	-1.4
Regulation of Transportation	18,637	20,458	1,821	9.7
Administration	21,781	26,247	4,466	20.5
<i>less distributed administration</i>	-21,781	-26,247	-4,466	20.5
Total	\$ 1,291,342	\$ 1,286,574	-\$4,768	-0.4
Funding Source				
General Fund	\$0	\$0	\$0	0
Special Funds	1,277,329	1,269,575	-7,754	-0.6
<i>Budget Act Total</i>	<i>1,277,329</i>	<i>1,269,575</i>	<i>-7,754</i>	<i>-0.6</i>
Federal Funds	1,209	1,702	493	40.8
Reimbursements	12,786	15,297	2,511	19.6
Total	\$ 1,291,324	\$ 1,286,574	-\$4,750	-0.4

Highlights

Global Warming Solutions Act Implementation. The Governor's Budget proposes \$1.3 million in special funds for three new positions to model the costs and benefits of various greenhouse gas emissions cap scenarios and develop protocols for measuring and verifying greenhouse gas emissions reductions in the power sector.

Electricity Market Design. The Governor's Budget proposes \$408,000 in special funds for one position to evaluate and plan for the reopening of retail electricity market competition in California.

California Solar Initiative. The Governor's Budget proposes \$2.4 million in reimbursements for the PUC to implement, administer, and evaluate the California Solar Initiative.

Railroad Maintenance and Safety. The Governor's Budget proposes \$705,000 in special funds for seven positions to conduct safety inspections of railroad equipment and facilities, to inspect high-risk tracks, and to collect and analyze data on near-miss accidents.

Video Competition Act Implementation. The Governor's Budget proposes \$950,000 in special funds for 10.5 positions to regulate video services.

Passenger Carrier Enforcement at Airports. The Governor's Budget proposes \$486,000 in special funds for five positions to conduct regulations enforcement of charter passenger carrier companies, such as limousine services, that provide service to airports.

Issues

Electricity Market Reopening. The Governor's Budget proposes to begin research into reopening the California electricity market for retail competition. In the past, California's experiments with deregulation have proven to be costly. The Legislature may wish to examine what the PUC's plans are specifically, what the potential benefits and costs of such a plan may be, and what the implications of such deregulation would be for the consumers of California.

8665 California Consumer Power and Conservation Financing Authority

Background. The California Consumer Power and Conservation Financing Authority (CPA) was created in response to the 2000-01 energy crisis and was charged with assuring a reliable supply of power to Californians at reasonable rates, including planning for sufficient reserves. The administrative operations of the agency ceased in October 2004 and its last remaining program, the Demand Reserve Program, is scheduled to expire on June 30, 2007.

Governor's Budget. The Governor's Budget proposes to eliminate the CPA and transfer all remaining CPA funds (estimated at \$2.5 million) to the Energy Commission for repayment of loans.

8770 Electricity Oversight Board

Background. The Electricity Oversight Board (EOB) was created as a result of energy deregulation and was intended to ensure that wholesale energy markets and the electric transmission system function reliably at a fair cost to consumers. The EOB investigates the structure, function, and competitiveness of markets for bulk energy, transmission, and generating capacity. The EOB also conducts oversight and performance evaluation of the California Independent System Operator. The EOB also represents the state before the Federal Energy Regulatory Commission, Federal Courts and in regional forums.

Governor's Budget. The Governor's Budget proposes to eliminate the EOB, while providing it with \$4.1 million in operations funding for 2007-08.

Summary of Expenditures				
<i>(dollars in thousands)</i>	2006-07	2007-08	\$ Change	% Change
Type of Expenditure				
Administration	\$ 4,073	\$ 4,128	\$ 55	1.3
Total	\$ 4,073	\$ 4,128	\$ 55	1.3
Funding Source				
Special Funds	\$ 4,073	\$ 4,128	\$ 55	1.3
Total	\$ 4,073	\$ 4,128	\$ 55	1.3

Issues

Budget Allocation. The Governor's Budget proposes to provide the EOB with a full operating budget for 2007-08. The Legislature may wish to consider whether a full operating budget is necessary for a board that is proposed for elimination.

Electricity Market Reopening. The Governor's Budget for the Public Utilities Commission proposes researching options to reopen the California electricity market for retail competition. The Legislature may wish to consider the impact of eliminating an oversight board while pursuing greater market competition.